

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: September 24, 2008

RE: GM's PA 328 New Personal Property Tax Exemption Request
(Recommend Approval)

At 11:00 A.M. today is a discussion on General Motors Corporation (GM) request for a PA 328 tax abatement on new personal property (machinery and equipment) investment of \$136 million at the Detroit/Hamtramck plant, primarily for the production of the new Chevy Volt, an electric powered car.

Your Honorable Body received a package from the Planning and Development Department yesterday supporting this request. Included in the package is a resolution the Administration would like for Council to consider voting on either during the adjourned session on Monday, September 29th, or during your formal session on Tuesday, September 30th. The resolution authorizes GM's application for a 328 abatement over a 25-year period on GM's new personal property investments at the Detroit/Hamtramck plant. Under PA 328, new personal property investments are 100% exempted from taxation over the life of the abatement period. Upon approval of the resolution, the application would be sent to the Michigan State Tax Commission for final approval.

The package also included a PA 328 agreement executed by GM and the Planning Development Department codifying certain requirements GM must abide by during the abatement period.

Project Description and Other Information

Attachments I and II represents memorandums from GM providing excellent details on the Chevy Volt product, project investments, employment goals, tax relief need, economic impact, community involvement and economic climate GM is currently operating under. Council should note that Attachment III represent responses to questions raised by the Fiscal Analysis Division on the abatement request. I want to express my sincere thanks to GM for the responses. The following is a brief summary.

Product

Starting in 2010, GM plans to newly assemble the Chevy Volt vehicle at the Detroit/Hamtramck plant. A lithium-ion battery would primarily power the Volt; after certain miles, a small gas powered engine would recharge the battery; and the battery could be recharged overnight using a common 110-volt household outlet. The Chevy Volt is designed to significantly save on gas.

In addition, GM plans to build a global platform to eventually build another vehicle and potentially improve other manufacturing processes at the plant.

Investment

Total corporate investment necessary to support this project is approximately \$600 million. Of this total, \$337 million would be spent at the plant: \$136 million on new personal property (machinery and equipment) GM is seeking exemption from taxation; \$147 million on special tooling exempt from taxation under State legislation; and \$54 million on machinery and equipment rearrangement and demolition costs to accommodate the production of the new Chevy Volt.

The \$337 million would be spent on the Body Shop and the General Assembly areas of the Detroit/Hamtramck plant, which are physically located in the Detroit City limits.

The difference of \$263 million would be spent primarily on tooling and dies located at various vendor facilities. In addition, GM plans to spend millions in engineering costs for the project.

Employment

GM expects to retain 1,944 hourly and salary jobs and add 550 new jobs at the Detroit/Hamtramck plant. However, for UAW employees, GM would have to give first preference to union employees currently laid-off, under transfer or in the JOBS Bank to fill the new positions due to the UAW-GM labor agreements. GM notes that 27% of the current workforce is a Detroit resident, 45% are minorities and 21% are women. GM hopes to go from one shift to three shifts when production is fully ramped up.

Current Economic Climate

The Detroit/Hamtramck plant has faced hard times in a very competitive global automotive climate. The Cadillac DTS and Buick Lucerne are currently produced at the plant. Peak employment were at 4,000 at the plant; 3,120 workers were employed in 2004 and the number dropped to 1,995 in 2007. Production of the current products went from 178,400 to 133,240 over the same period. Due to declining US market conditions, GM will end producing the Cadillac DTS and

Buick Lucerne in 2010. In essence, the Detroit/Hamtramck could close if the Chevy Volt is not built there.

Community Involvement

Through operations at the Detroit/Hamtramck plant, GM has worked hard to be an excellent corporate citizen, investing some \$75 million in Detroit charities, schools, and public events such as the Super Bowl over the last five years. In addition to the plant facility, GM currently employs 5,500 in the City of Detroit, of which 3,600 live in Detroit. 9,000 GM retirees/surviving spouses live in the City. And, GM has worked with over 200 Detroit-based suppliers, with contracts exceeding \$7 billion annually.

Additional Tax Exemption from State

If Council approves the PA 328 abatement, GM hopes this action would provide an incentive for the Michigan Economic Growth Authority to also grant tax credits for the Chevy Volt project.

Rationale for the 328 New Personal Property Abatement Request

GM feels it needs the abatement in order for the Detroit/Hamtramck plant to remain viable in an intensely competitive global market. Car companies are constantly changing models to meet the demands of the consumer. GM hopes the Chevy Volt would be the type of product that addresses the need to rely more on alternative fuel sources.

The 328 abatement designation would apply to any new personal property investment over the 25-year period exemption period. This helps GM to lower its structural cost of running the plant to help keep it viable while attempting to remain competitive.

328 Agreement

I believe the 328 agreement GM/Planning and Development Department have entered into strengthens the reason why your Honorable Body should approve the abatement request.

Under the agreement, GM promises to:

1. Invest to install \$136 million in new personal property at the Detroit/Hamtramck plant.
2. Add 550 full-time employees at the plant within five years of approval date.
3. Retain 1,944 full-time jobs for the life of the abatement (25 years).
4. Once UAW employment requirements are met, make reasonable efforts to hire City of Detroit residents to fill positions.

5. Provide annually EEO reports to the City and provide an Affirmative Action Plan to the Human Rights Department upon request.
6. Provide an annual report on employment levels.
7. Agrees to work with the Detroit Economic Growth Corporation to locate potential tool and die vendors in the City of Detroit, which could provide more economic benefits to the City of Detroit.

The 328 agreement also has two "claw back" provisions. First, the City Council could ask the State Tax Commission to reduce the remaining term of the tax abatement or revoke the tax abatement if GM fails to submit and abide by its affirmative action plan and significantly invests in an amount lower than committed to in this agreement. And secondly, GM may be required to pay the City a portion or all of the tax abated amount if employment levels fall below 80 percent of the 1,944 jobs to be retained and 550 jobs promised by GM. In both cases, however, the City Council must afford GM an opportunity to present at a public hearing reason for any shortfalls.

For Council's edification, GM received a 50-year 328 abatement in Bay City with no agreement; a 25-year abatement in Flint with no agreement; a 25-year abatement in Lansing with no agreement; and a 25-year abatement in Pontiac with an agreement not as stringent as the one in Detroit. I applaud the Administration/GM for working out the Detroit agreement as it helps to make this project a more beneficial one for the City.

Cost/benefit Analysis

GM estimates the new Chevy Volt project would generate \$167 million in gross direct economic impact dollars over the 25-year abatement period. Approximately \$38 million would offset this if your Honorable Body approves the 328 tax exemption. As a result, the City of Detroit, and to a lesser extent, other taxing jurisdictions, would receive a **net economic benefit of \$129 million over the 25-year abatement period.**

The details behind the projections below, with assumptions, are included on confidential spreadsheets that your Honorable Body or staffs are welcomed to review in my office.

Projected gross direct economic benefits (over 25 years)

City individual/payroll income taxes (1,944 retained jobs)	\$39,347,629
City individual/payroll income taxes (550 new jobs)	9,796,426
City user's utility taxes	6,915,000
Real property taxes (existing at D/Ham)	
- City (general city, debt service, library, school operating, school debt, admin fee)	32,669,255
- County (wayne county operating and other county taxing jurisdictions)	6,477,353

Personal property taxes (existing/new at D/Ham)	
- City	55,377,903
- County	<u>16,737,438</u>

Total estimated gross direct economic benefits	<u>\$167,321,004</u>
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Less projected costs due to 328 new personal property tax abatement (over 25 years)

Personal property taxes-new \$136 million investment)	
- City	\$29,140,001
- County	<u>8,807,286</u>
Total personal property taxes abated per PA 328	<u>\$37,947,287</u>

Projected **net** direct economic benefits (over 25 years)

City individual/payroll income taxes (1,944 retained jobs)	\$39,347,629
City individual/payroll income taxes (550 new jobs)	9,796,426
City user's utility taxes	6,915,000
Real property taxes (existing at D/Ham)	
- City	32,669,255
- County	<u>6,477,353</u>
Personal property taxes (not including new investment)	
- City	26,237,902
- County	<u>7,930,152</u>

Total estimated net direct economic benefits	<u>\$129,373,717</u>
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Of the \$129 million in net direct economic benefits over the 25-year abatement period, the City of Detroit (City government, library, Detroit public schools, etc.) receives **\$115 million** of those benefits; and the other taxing jurisdictions in the County, \$14 million. In other words, the City of Detroit gets the benefit of receiving approximately **\$4.6 million annually on average** in new economic benefits from the GM Chevy Volt project, after the affect of the tax abatement.

I feel the potential economic benefits derived from this project would help to boost the local economy and the City's coffers. Based on the above cost/benefit analysis, I feel Council has a compelling reason to approve this abatement request.

The only caveat is that GM could invest in new personal property beyond the \$136 million initial investment over the 25-year abatement period, which could lower the net direct economic benefit calculation significantly. Of course, no one knows if this will occur. Fortunately, the 328 agreement would help the City

Council monitor this situation. On the other hand, continual future investments in the Detroit/Hamtramck plant would be probably be a good thing in the long run, as this would signal the viability of the plant as a going concern.

For the reasons enumerated throughout the report, I recommend approval of GM's request for a 328 new personal property tax abatement for the Detroit/Hamtramck plant/new Chevy Volt project.

Attachments

cc: Council Divisions
Auditor General's Office
Troy D. Kennedy, Regional Tax Manager
Douglass Diggs, Planning and Development Department Director
Clinton Griffin, PDD-Development Specialist
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Londell Thomas, Mayor's Office

ICJ:\ICORLEY\GM 328 New Pers Prop Tax Request September 2008.doc

Attachment I



Tax Staff

General Motors Corporation
Tax Staff
Mail code 482-C14-C66
PO Box 300
Detroit, MI 48265-3000
USA

July 1, 2008

Honorable Detroit City Council
200 Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Dear City Council:

General Motors Corporation (GM)
Detroit/Hamtramck (DHam) Assembly Facility
Application for Exemption of New Personal Property (Public Act (PA) 328)
And Supplemental Information

General Motors Corporation is hereby respectfully requesting the Honorable Detroit City Council's support to approve a 25-year term, PA 328 100% property tax exemption application for the Detroit/Hamtramck Assembly Facility. As well, GM is working with the Michigan Economic Development Corporation to help enhance the business case for the proposed investment with State incentives; e.g., Michigan Economic Growth Authority (MEGA) tax credits. GM does not foresee the need for additional infrastructure support from the City for this proposed project.

To facilitate the process, enclosed please find the following: (a) an executed "Application for Exemption of New Personal Property" for the DHam facility in connection with GM's proposed Volt and other potential future motor vehicle product, (b) an equipment list, (c) a legal description of the property where the new personal property is slated to be installed, and (d) GM's most recent EE01 and EE02 reports for the DHam facility.

Project Summary:

Products

The proposed project is for the production of motor vehicles based on both E-Flex (Volt) and traditional powertrain technologies. The Concept Chevy Volt, with its revolutionary E-Flex Propulsion System will be different than any previous electric vehicle because it will use a lithium-ion battery with a variety of range-extending onboard power sources, including gas and, in some vehicles, E85 ethanol to recharge the battery while driving.

When necessary, the Volt is designed to be plugged into a common 110-volt household outlet, so the battery pack can be recharged. For someone who drives less than 40 miles a day, the Chevy Volt will use no gasoline and produce zero emissions. For longer trips, the Volt's range-extending power source (e.g., small gasoline engine) starts in order to recharge the lithium-ion battery pack as required. With this supplemental power source, we expect the driving range of the vehicle to be approximately 640 miles.

GMC Detroit Hamtramck
Application For Exemption

In addition to the E-Flex vehicle, we also are studying the potential for a new, traditional powertrain product based on a global platform. While we cannot provide specific product detail for competitive purposes, this new product could provide expanded production and opportunity for the plant.

Investment

The site specific investment would be approximately \$337 million. Of that total, about \$136 million would represent taxable machinery and equipment, and \$201 million would be non-taxable special tooling and operations expense (primarily machinery & equipment rearrangement and demolition costs). Total corporate investment necessary to support this project is approximately \$600 million, with the bulk of the difference between the \$337 million and the \$600 million representing tooling and dies located at various vendor facilities. This of course, does not include the significant engineering costs invested in this exciting, game changing technology. The anticipated start of construction will be June, 2009 with planned completion for June, 2011.

Employment

Based on current estimates, we expect to retain approximately 1,944 hourly and salary jobs currently located at the plant, and add approximately 550 jobs to the DHam Assembly Facility, if the project is approved. GM currently operates DHam on one shift, and would anticipate increasing the operation to three (3) shifts after the new investment is completed and production is fully ramped up to the expected demand. It should be noted that 27% of the current workforce are Detroit residents, 45.3% are minorities and 21.3% are women. GM also employs approximately 191 support employees on site from other firms that perform various functions throughout the facility.

Necessity for Tax relief

General Motors operates in an intensely competitive global market. In addition to our global competitors, (e.g., Nissan, Toyota), each plant also competes internally for new investment. To stay viable, GM must be competitive, including in how we approach manufacturing investments and related available economic incentives. Local economic incentives not only help reduce and manage structural costs, but they also send an important message to our leadership regarding a facility's long-term viability and the willingness of a community to actively participate in a growing, important business partnership.

Economic Impact

The DHam facility is also a significant economic engine in the City of Detroit as highlighted below:

- \$125 million in current annual payroll
- \$11 million in 2007 tax year total GM real and personal property tax payments
- \$2.4 million in current City of Detroit income tax withholdings
- \$276,600 in 2007 City of Detroit Utility Users tax.

There also is a significant ripple effect associated with keeping the Detroit/Hamtramck plant viable. First and most importantly, a viable manufacturing operation results in continued employment, which impacts the City's income tax revenue. Additionally, those employees will spend some of their income in the city thereby benefiting other businesses in the community - banks, retailers, service providers, etc. The 28% who live in the city will pay property taxes,

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Application For Exemption

which will help sustain property values. Their children will attend Detroit schools, which will keep enrollment at levels that will help sustain educational resources. All of these events and more create a continued positive impact on the economic well-being of the city.

Community Involvement

The DHam facility has worked very hard to be an excellent corporate citizen through the years and has a deep commitment to the City of Detroit as highlighted below:

- \$85,000 in annual United Way contributions
- \$20,000 for the Adopt-A-Family contributions
- A World In Motion - 12 volunteers in DPS system
- Wildlife refuge - dedicated 16.5 acres of plant property
- Maintain surrounding property including lawn, sidewalks, and Vernor Park

In addition to the DHam facility, GM has demonstrated its on-going commitment to the City of Detroit as highlighted below:

- 5,500 Employees currently work in the City of Detroit
- 3,600 GM employees currently live in the City of Detroit
- 9,000 total GM retirees and/or surviving spouses live in the City of Detroit
- We have worked with over 200 Detroit-based suppliers, businesses and service providers, who have employed over 28,000 people from the region. Our contracts with these businesses exceeds \$7,000,000,000

In the past 5 years, GM has contributed approximately \$75,000,000 in support of a large number of Detroit charities, events and schools, including significant sponsorship of events such as Super Bowl, the NCAA Regional Tournaments and Final Four and Detroit River Days. The following is a very small representation of the variety of organizations that GM has supported:

- Charles H. Wright Museum of African American History
- College for Creative Studies
- Detroit Hispanic Development Corporation
- DIA
- Detroit Police Athletic League
- Detroit Science Center
- Detroit Urban League Inc.
- Detroit Youth Foundation
- Focus: HOPE
- Gleaners Community Food Bank of Southeastern Michigan
- Habitat for Humanity Detroit
- Heat and Warmth Fund
- Hispanic Business Alliance
- Latin Americans for Social and Economic Development, Inc.
- Latino Family Services
- Michigan Chronicle
- Michigan Opera Theatre
- National Association for The Advancement of Colored People Detroit Branch
- New Detroit, Inc.
- Proliteracy Detroit
- Ronald McDonald House of Detroit
- Sphinx Organization, Inc.

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- United Negro College Fund
- Wayne State University
- Alternatives for Girls
- Black Family Development, Inc.,
- Detroit Riverfront Conservancy

GM has encouraged and supported its employees to volunteer and mentor in Detroit, including:

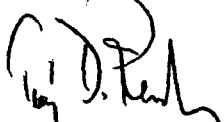
- Detroit Public Schools facilities repair program,
- Detroit Public Schools - A World In Motion

Summary of current economic climate of plant

The 1,944 jobs currently at the plant in no way represent the plant in its heyday, when over 4,000 were employed. This reduction in jobs is both a reflection of increasing efficiencies implemented at the facility, as well as declining US market conditions which affect production volumes. Currently, the plant produces two products: the Cadillac DTS and the Buick Lucerne. Both of these vehicles will end production sometime in 2010. When this occurs, without a new product, the future of the plant is uncertain. However, with favorable support from the City of Detroit by awarding a P.A. 328 25-year tax abatement for the plant, the cost structure will be more competitive.

Thank you for your thoughtful consideration on our behalf. Please contact me if there are questions on (313) 665-4054.

Very truly yours,



Troy D. Kennedy
Regional Tax Manager

Attachment II



General Motors Corporation
Tax Staff
Attn: Code 482-C17-C86
PO Box 500
Detroit, MI 48265-3000
USA

July 11, 2008

Honorable Detroit City Council
200 Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Dear City Council:

General Motors Corporation (GM)
Detroit/Hamtramck (DHam) Assembly Facility
New Personal Property (Public Act (PA) 328) Supplemental Questions

This letter is issued in response to a number of supplemental questions raised in connection with GM's PA 328 application. As a result, GM respectfully submits the following responses:

Question 1) The necessity for a 25-year term tax exemption?

Answer 1) Given the enormous financial investment in this game-changing, revolutionary technology and the exciting future the E-Flex (Volt) technology presents, a 25-year term will be extremely helpful in enhancing the challenging business case GM faces for this very expensive, special technology. As well, the 25-year term does the following:

- The City of Detroit creates an environment that helps automatically induce consideration by GM for future investment at the DeHam facility.
- The City of Detroit sends another positive signal to GM about their willingness to partner in a meaningful way on this and potential future investments.
- Places the DeHam plant in a more competitive position to attract future personal property investment when benchmarked against locations around the globe that do not impose a personal property tax.
- Enables certainty in GM's long lead project cost analysis/study that the personal property structural cost is at the lowest level possible at the DeHam facility.

As you may know, federal depreciation lives are not equal to the actual useful life of machinery and equipment, but rather a way of recovery of costs of an asset.

Question 2) Can GM provide a \$136 million equipment list?

Answer 2) The two products (Volt and global platform product) are not finalized so it is difficult to furnish a succinct equipment list for the Volt and especially for the global platform product that is not as far along in the planning process. Given the competitive, rapidly changing economic and technological environment, GM is required to move faster than ever with these proposed investments. Consequently, detailed, finalized equipment lists are not

GMC Detroit Hamtramck
Application For Exemption

readily available. However, we will re-solicit the planning team to determine if a more detailed equipment list exists at this time. A more detailed list will be provided as soon as it is available. As discussed, an equipment list is not statutorily required for a PA 328 exemption application. However, GM is required by statute to annually, separately report the exempted personal property totals eligible for the PA 328 exemption and will do so in compliance with the statutory requirement.

Question 3) How does the equipment installation relate to the City of Detroit and Hamtramck?

Answer 3) As noted on the "Description of New Equipment Proposed for the DeHam Plant" Attachment "B" provided with the application, GM plans to invest in the Body Shop and the General Assembly areas of the facility. Both of these areas are within the Detroit City Limits, the areas that are in the Hamtramck City limits are the Paint Shop and the Powerhouse. As noted on Attachment "B", investment is not contemplated for the Paint Shop and the Powerhouse.

Question 4) How imminent is the approval for this project?

Answer 4) Subject to successful discussions with State and Local officials concerning incentives support, and upon a final decision and formal announcement, the Volt will move forward. The global platform vehicle is also under study for the DeHam plant and as noted in GM's answer to question 2, GM is moving rapidly to respond to the changing economic environment and while both of these products are not formally approved, approving the PA 328 exemption application is a very important step in the process of helping GM build a viable business case for these proposed products.

Question 5) How is the workforce composition influenced concerning city vs. non-city residents, etc?

Answer 5) For UAW employees, GM is required to fulfill all applicable guidelines and requirements established in the UAW-GM National and Local agreements concerning employment of existing GM employees across the US including provisions concerning transfers, layoff and JOBS Bank recall rights for the DeHam facility. While it is unclear how many "new hires" may be required at the DeHam facility in the future, GM will, after fulfilling all contractual obligations, make commercially reasonable efforts to hire City of Detroit residents who successfully complete General Motors employment assessment process.

We believe the 27% figure to be significant, considering employees are not required to live in the cities where they work. In addition, employees transfer from all over Southeastern Michigan and other States pursuant to the UAW-GM National and Local agreements.

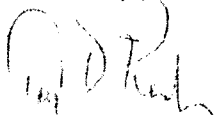
In an effort to clarify our workforce demographics, of the total workforce in the plant, 45.3% are minorities.

Finally, GM employees are consistently some of the highest paid in the region and we believe our workforce to consist of very responsible individuals.

I hope these responses are helpful in clarifying the issues surrounding the PA 328 exemption application. Thank you for your thoughtful consideration on our behalf. Please contact me if there are questions on (313) 665-4054.

GMC Detroit Hamtramck
Application For Exemption

Very truly yours,

A handwritten signature in dark ink, appearing to read "Troy D. Kennedy". The signature is fluid and cursive, with the first name "Troy" and last name "Kennedy" being the most legible parts.

Troy D. Kennedy
Regional Tax Manager

City of Detroit
General Motors Corporation - Project Summary
PA 328 - 100% Exemption Request, 25-year Term

Product Descriptions

- The proposed project is for the production of motor vehicles based on both E-Flex (Volt) and traditional powertrain technologies. The concept Chevy Volt, with its revolutionary E-Flex propulsion system will be different than any previous electric vehicle because it will use a lithium-ion battery with a variety of range-extending onboard power sources, including gas and, in some vehicles, E85 ethanol to recharge the battery while driving.
- In addition to the E-Flex vehicle, we also are studying the potential for a new, traditional powertrain product based on a global platform. While we cannot provide specific product detail for competitive reasons, this new product could provide expanded production and opportunity for Detroit Hamtramck (DHam).

Investment

- The total site specific investment would be approximately \$337 million.
- \$136 million would represent taxable machinery and equipment (abatement amount) and \$201 million would be non-taxable special tooling and operations expense (primarily machinery & equipment rearrangement and demolition costs).

Employment

- Based on current estimates, we expect to retain approximately 1,944 hourly and salary jobs currently located at the plant.
- GM would also add approximately 550 jobs (subject to the terms and conditions of our UAW National and Local agreements) to the DHam facility.
- Payroll from 550 jobs is estimated at \$28.71 per hour, with annual estimated City of Detroit personal income tax withholdings of approximately \$445,000.

PA 328 - 100% Exemption Request - 25 Years

Given the enormous financial investment in this game-changing, revolutionary technology and the exciting future the E-Flex (Volt) technology presents, a 25-year term will be extremely helpful in enhancing the challenging business case GM faces for this very expensive, special technology. The 25-year term also does the following:

- Creates an environment that helps automatically induce consideration by GM for future investment at the DHam facility.
- Sends another positive signal to GM about the City's willingness to partner in a meaningful way on this and potential future investments.
- Places the DHam plant in a more competitive position to attract future personal property investment when benchmarked against locations around the globe that do not impose a personal property tax.
- Enables certainty in GM's long lead project cost analysis/study that the personal property structural cost is at the lowest level possible at the DHam facility.
- Ongoing, estimated 25-year taxes generated by the plant including City of Detroit (Detroit millage only) real & personal property taxes, retained and new personal income tax withholding, and the utility users tax equates to a range of *\$61 - \$77 million, while the City of Detroit (Detroit millage only) personal property taxes abated (foregone) is estimated to be approximately \$12.5 million. *These estimates contemplate many assumptions that can and will likely change.

Attachment III



Tax Staff

General Motors Corporation
Tax Staff
Mail code 482-C14-C66
PO Box 300
Detroit, MI 48265-3000
USA

Sent via email

August 29, 2008

Mr. Irv Corley
Director, Detroit City Council Fiscal Analysis Division
City of Detroit

Dear Mr. Corley:

Enclosed please find responses to your request of August 8, 2008 concerning the proposed investment and PA 328 application before the City of Detroit. I appreciate your patience and hopefully these responses will be helpful with your review.

1. Please provide a copy of any 328 abatement agreements GM entered into with the other Michigan municipalities. These may serve as a model for Detroit.

Answer: For communities that have provided 25 year terms or more (similar to our request before the City of Detroit) our response is as follows:

- a. Bay City - 50 years - no abatement agreement
- b. Flint - 25 years - no abatement agreement
- c. Lansing Delta Twp. - 25 years - no abatement agreement, infra-structure agreement (to partially reimburse community for infra-structure costs to support project)
- d. Pontiac Assy. - 25 years - abatement agreement attached

2. The Cadillac DTS and Buick Lucerne are currently produced at the Detroit/Hamtramck Plant. Please provide annual production levels of these vehicles from 2004 to 2007.

Answer: 2004-178,385 / 2005-142,160 / 2006-172,202 / 2007-133,240

3. Employee job levels at the Detroit/Hamtramck Plant were 3,120 for 2004, 3,166 for 2005, and 2,850 for 2006. What was the job level for 2007?

Answer: 2,158

4. How many shifts were in existence at the plant for 2004 through 2007?

Answer: 2 shifts of production for 2004-2007

5. Would the Detroit/Hamtramck Plant continue to produce the Cadillac DTS and the Buick Lucerne even if the plant starts production of the Chevy Volt at the plant in 2010/2011? If not, is GM considering producing the Cadillac/Buick models at another plant in Michigan?



Answer: Both the Cadillac DTS and Buick Lucerne will continue to be produced through their current lifecycles. We are predicting the lifecycles of both products to run through 2010, however, actual timing will be determined based on market demand for both products.

6. Would GM close the plant if for any reason the Chevy Volt were not produced?

Answer: In addition to market demand for a product, the decision to cease production at a plant is based on a number of variables, including the cost and quality performance of the facility and the flexibility of the plant to produce other products. We cannot speculate on what will happen at DHam in the future.

7. Is it anticipated that the Chevy Volt immediately be sold on the global market as well?

Answer: The Chevrolet Volt will initially be launched in the U.S. and sold globally soon after.

8. What are the projected production levels of the Chevy Volt at the plant during the initial three years of production?

Answer: Due to competitive concerns, we are not in a position to discuss production volumes. However, we do not see the Volt as a niche product - we expect to produce tens of thousands of vehicles in the first calendar year, with volumes increasing in following years.

9. It is my understanding that the Chevy Volt is a concept car, running on a lithium-ion battery. Has the car been road tested to such a point that it would be ready for production by 2010/2011?

Answer: The Chevrolet Volt concept was introduced at the North American International Auto Show in 2007. We are currently testing engineering development vehicles powered by li-ion battery packs on the private roads of GM's Milford Proving Grounds. These are important first steps in the engineering development that must occur before production begins. This is typical for any new production vehicle headed to market.

10. Would the entire Chevy Volt, including the battery, be produced at the Detroit/Hamtramck Plant?

Answer: The battery will not be produced at the DHam plant. The Volt would be assembled at the Dham plant.

11. I have read that the cost of the Chevy Volt ranges from \$30,000 to \$48,000. What are the projections now?

Answer: We will announce pricing of the Chevy Volt much closer to its launch in 2010 when we have a better understanding of the market conditions.

12. What would be the life cycle of the Chevy Volt and the battery?



Answer: We are targeting 10 years or 150,000 miles similar to a typical life-span of any vehicle on the market today.

13. Will the battery withstand cold winters?

Answer: Yes. And it will withstand hot summers as well.

14. Would GM assist in the recycling of these batteries?

Answer: Due to competitive concerns, we are not in the position to discuss our battery recycling strategy at this time.

15. Any research on the impact of the Chevy Volt on auto insurance rates?

Answer: We are not at liberty to share any insurance related information. We suggest you speak directly with that group.

16. Is it envisioned that the standard warranty programs will cover the Chevy Volt?

Answer: Due to competitive reasons, we are not in the position to discuss warranty coverage at this time.

17. I understand it would cost a car owner about 80 cents to drive the Chevy Volt the first 40 miles, and then get 50 miles per gallon thereafter using gas, since a gas turbine would help generate electricity, lasting another 640 miles. Is this still the basic concept?

Answer: The Chevrolet Volt will use electricity as its primary power source and gasoline as its secondary energy source to propel the vehicle. Energy is stored on board in a "T"-shaped lithium-ion battery pack. The battery pack powers the electric drive motor, which is capable of meeting full vehicle speed and acceleration performance while driving the car electrically for up to 40 miles without using a drop of gas.

For longer trips, the Volt's on-board gasoline powered range-extending engine and generator creates additional electricity to power the vehicle for over 300 miles after the battery is depleted. The difference in range (640 v 350) is due in part to a smaller on-board liquid fuel tank (sized reduced to lower vehicle mass).

Only 8kWh of the Volt's 16kWh battery is used daily for powering the vehicle. At \$.10/kWh (a very conservative estimate), the cost to fully charge the Volt would be approximately \$.80 - or \$.02 per mile. This compares favorably to a gas-powered vehicle achieving 30 mpg at \$3.60 per gallon - which equates to \$.13 per mile. The cost difference increases if the vehicle is powered off-peak when rates are even lower (approximately \$.05/kWh or \$.01 per mile.)

18. Site-specific investment for the Chevy Volt at the Detroit/Hamtramck Plant would be \$337 million. You have indicated that of that total, \$136 million would represent taxable machinery and equipment. Are you seeking the 328 abatement for this equipment? Do you have a detailed listing of this equipment showing useful lives? In addition, you have indicated that of the total, \$201 million would be non-taxable special tooling and operations expense (primarily machinery & equipment rearrangement and demolition



costs). Please explain. Why is this equipment non-taxable? Is there specific State legislation classifying this equipment as non-taxable?

Answer: Special tooling is exempt from the imposition of personal property tax by Michigan statute and the operations expense incurred for demolition and rearrangement does not fall within the definition of tangible personal property.

Useful lives will span from as little as 3 yrs - Non IT - Test floor equipment to 13-17 years for various machinery and equipment.

19. It is my understanding that estimated 25-year taxes generated by the plant including City of Detroit (Detroit millage only) real and personal property taxes, retained and new personal income tax withholding, and the utility users tax equates to a range of \$61-\$77 million, while the City of Detroit (Detroit millage only) personal property taxes abated (under the 328 abatement) is estimated to be approximately \$12.5 million. Understanding this is crucial to my analysis of the cost/benefit to the City of Detroit. Please provide support documents/spreadsheets for these estimates, with assumptions. If any information is proprietary, please submit information confidentially, and I will not share it in my final report, which eventually is made public. In addition, please provide the level of property taxes received by the other taxing jurisdictions (school, county, etc.) and level of taxes lost by those jurisdictions under the 328 abatement.

Answer: GM respectfully requests this information be held confidentially.

20. It is also my understanding that total corporate investment necessary to support the Chevy Volt project is \$600 million. \$337 million of this total is described above, and the remaining \$263 million represents tooling and dies located at various vendor facilities. Are any of these vendors located in the City of Detroit? If so, what is the projected investment for Detroit? Would any jobs be created from the tooling and dies? Is part of your estimate on personal taxes paid based on the new tooling and dies?

Answer: While GM has not finalized sourcing at this time, GM believes there is the potential for new suppliers to be based in Detroit. In this regard, GM will work with the DEGC as these sourcing decisions can be disclosed (once known, announced, and agreed upon) in an effort for the DEGC to assist these new suppliers locating in Detroit. Confidentiality of supplier locations is essential in this regard.

GM's estimate does not include personal taxes paid for new tooling and dies located at vendor sites.

21. It is my understanding that the \$600 million investment does not include the significant engineering costs invested in the Chevy Volt and global platform GM contemplates would be constructed at the Detroit/Hamtramck Plant. Do you have an estimate of the engineering costs that would be invested for this endeavor?

Answer: For competitive reasons, GM does not disclose this type of information. However, as you can imagine, engineering an all new vehicle that operates on electricity as a primary power source and gasoline as a secondary energy source is very expensive.

22. It was indicated that GM has spent \$7 billion on contracts with over 200 Detroit-based suppliers, businesses and service providers. Is this expenditure on an annual basis?



Answer: Yes, it is on an annual basis.

23. I understand that GM is also seeking State tax incentives for the Chevy Volt/global platform project. What type of State tax incentives are you seeking and what are the projected savings from these incentives?

Answer: GM is currently seeking mega credits which are in negotiation with the State of Michigan as to the potential terms of the agreement, as a result, we do not have estimates to share with you at this time.

24. As it would be indicated, GM hopes an approved 328 abatement would help provide incentives toward future investments at the Detroit/Hamtramck Plant. As investments are made over the course of the 25 years, any new personal property would be reported to the City's Assessor's Office, and of course, would receive benefit from the 328 designation. Would GM be amenable to promising retention/creation of new jobs from each sizable investment, say over \$200 million? Would GM be amenable to reducing the level of abatement (for example, going from a 100% personal property abatement to a 75% abatement), if certain thresholds are not met, such as level of investments, jobs created, etc.? Although I extremely understand GM's goal of making any investment in the Detroit/Hamtramck Plant cost competitive, it would seem the project could be even more a "win-win" if it was assured that the City of Detroit could best benefit from this exciting project investment as well, especially given the struggling economic times now faced, and probably will face for awhile, by the City. This is just for discussion for now.

Answer: GM is interested in maximizing the business case for this proposed investment and potential future investment.

25. GM projects the project would retain approximately 1,944 hourly and salary jobs currently located at the plant, and add approximately 550 jobs to the Detroit/Hamtramck Plant, if the project is approved. The plant would run 3 shifts if production meets expected demand, which I asked about earlier. Is it highly possible that employee transfers and called-back workers under the current labor agreements would fill the new 550 jobs? How many new support employee jobs this project could create?

Answer: The process under Appendix A of our National Agreement states recalls, area hires (local transfers) and extended area hires (out of the local area who wish to transfer here) would have first rights to the positions. Recently we hired new hires from the referral pool (many from Detroit) to fill a recent requisition, because we had exhausted all of the requests for recalls and transfers. Also, as indicated earlier, approximately 34% of this pool of referrals are Detroit residents.

26. Please describe GM's commitment to use commercially reasonable efforts to comply with the goals set forth in Executive Order No. 2007-1: Utilization of Detroit Residents on Publicly Funded Construction Projects and Executive Order No. 2003-04: Utilization of Detroit Headquartered Businesses and Detroit Based Businesses for City of Detroit contracts.

Answer: GM has spent \$7 billion on contracts with over 200 Detroit-based suppliers, businesses and service providers. GM will continue to use the same good faith efforts in this regard into the future.



27. In connection with the executive orders described above, please explain the GM plan to work with the City's Detroit Workforce Development Department to provide qualified City residents with the opportunity to fill temporary construction worker jobs and regular full-time jobs created by the Detroit/Hamtramck Plant project.

Answer: GM must first fulfill all national and local UAW contract requirements concerning skilled trade activity. The Southeast Michigan Association of General Contractors of America have in place established labor agreements with the various Detroit Building Trades unions. These respective labor agreements define the process that these contractors must follow when requesting construction labor from each respective Building Trades union. We believe that the membership in these Detroit Building Trades unions geographically include all of Wayne, Oakland and Macomb counties. GM will however request that all contractors, make a good faith effort in requesting Detroit residents from the building trades' union halls.

28. Does GM currently have apprenticeship programs for Detroiters available? If not, would the company make them available in the future from the Chevy Volt/global platform project?

Answer: The guidelines of our National Agreement allow for outside applicants (new hires) to be hired as apprentices. Two lists for apprenticeships are developed with one list consisting of seniority employees and one list consisting of potential new employees to the company. The second list is developed much the same way as our referral list is developed with candidates coming from employee referrals. This list would generally consist of the same percentage of Detroit residents as our referral pool. Apprentices are chosen from both lists. A formula is used to decide if and when apprentices will be given to a facility. The overall General Motors' objective is to indenture 1,500 apprentices during the term of the 2007 National Agreement across the Corporation

I hope this information is helpful with your review. If there are questions, please let me know on (313) 665-4054.

Very truly yours,

A handwritten signature in black ink, appearing to read "Troy D. Kennedy".

Troy D. Kennedy
Regional Tax Manager



**CITY OF PONTIAC PUBLIC ACT 328 OF 1998,
EXEMPTION OF NEW PERSONAL PROPERTY TAX AGREEMENT**

This Public Act 328 of 1998 Exemption of New Personal Property Tax Agreement (hereinafter referred to as the "Agreement") is dated this _____ day of _____, 2005, between General Motors Corporation, a Delaware corporation, having a business address at GM Corp. Global Headquarters, Mail Code 482-C14-C66, 300 GM Renaissance Center, P.O. Box 300, Detroit, Michigan 48265-3000 (hereinafter referred to as the "Company") and the City of Pontiac, the address of which is 47450 Woodward Avenue, Pontiac, Michigan 48342, (hereinafter referred to as the "City"). The Company has submitted an application for the granting of an Exemption of New Personal Property (hereinafter referred to as the "Exemption"), pursuant to Michigan Public Act 328 of 1998 (MCLA 211.9f), as amended, for the personal property to be installed at the GM Truck Assembly Plant located at 2100 S. Opdyke Road in Pontiac, Michigan 48341.

On June 16, 2005, the Pontiac City Council approved the Company's application for an Exemption with respect to personal ad valorem property taxes, subject to the issuance of an approval of the Exemption by the State Tax Commission, for a period of twenty five (25) years with a 100% abatement commencing on December 31, 2005 and terminating on December 31, 2030.

To encourage the granting of the Exemption, and in recognition of the contribution the City will be making to the economic growth of the Company by granting the Exemption, and thus the economic expansion of the City, the Company and the City state as follows:

The Company acknowledges that as a prerequisite to obtaining a Public Act 328 Personal Property Tax Exemption Certificate ("tax abatement"), the Company has made certain material representations to the City in its application for Personal Property Tax Exemption Certificate filed with the Pontiac City Clerk on May 13, 2005, upon which the City will continue to rely, and based upon which the Company will receive a personal property tax exemption on new personal property purchased after the approval date of the certificate by the Pontiac City Council for a period of twenty five (25) years.

The Company further acknowledges that the receipt of the Public Act 328 Personal Property Tax Exemption Certificate is based upon the aforementioned material representations made by the Company in its application and Questionnaire. Further, that all representations made therein are true and correct to the best of the Company's representatives' information, knowledge and belief and that the representations include the past history of the Company, the present status of the Company and the future duties and obligations to be performed by the Company.

In consideration of the receipt of the Public Act 328 Personal Property Tax Exemption Certificate, it is expressly agreed by the Company that should any of the material representations of the Company be erroneous or should the Company fail to substantially perform any future promises, duties or obligations as described herein, the same shall be deemed to constitute a

breach of this agreement and the City may pursue all legal remedies available at law and in equity.

The Company agrees to comply with all relevant local rules, regulations, codes and ordinances within the City of Pontiac during the entire period for which the Certificate is granted. The Company also agrees to comply with all construction, building and zoning codes in effect during the entire period for which said Certificate is granted at all facilities in the City of Pontiac. Facilities existing prior to the granting of the Certificate that do not constitute a threat to the health, safety, or welfare of the public and/or employees shall be exempted.

The Company shall submit to the City Assessor, for the term of the Exemption Certificate, on a form requested by the City, an annual status report recapping total personal property tax exemptions claimed as of December 31, of each year. The report will be due no later than February 20 of each subsequent year. It will indicate the number of jobs created or retained as of December 31, of each year of the project. If, as of any annual report date during the exemption period, there is a variation in the estimated employment levels or money expended on personal property from what was set forth in the original application and/or Questionnaire, the Company must include an explanation for this variation in the annual status report.

The Company further agrees that it shall pay all taxes and assessments on the regular and ad valorem roll, real and personal, not subject to this certificate or other tax exemptions granted by the City of Pontiac and approved by the State Tax Commission, hereupon levied on said premises or any equipment or personal property thereon before any penalty for non-payment attaches thereto, beginning with the next tax billing and continuing throughout the term of the Exemption. The Company maintains the right to protest any tax assessment it believes to be improper without jeopardizing the benefits of the Exemption.

The Company does not agree to maintain any specified level of overall Facility/plant employment, for any particular period of time, except as specifically set forth in its Application for a Public Act 328 of 1998 Personal Property Tax Exemption Certificate (the number of jobs to be retained as represented by the Company is approximately Two Thousand Seven Hundred and Thirty Eight (2,738). The number of new jobs to be added is approximately Two Hundred and Eighty Nine (289)). The City's remedies and the Company's obligations in the event of an employment shortfall are set forth herein.

The City acknowledges that in some instances, economic conditions, technology, or conditions beyond the control of the Company may prevent the Company from fulfilling the terms of the Application for the Certificate and the Questionnaire and complying fully with this Agreement. The City agrees that it shall give the Company an opportunity to explain to the City Council the reasons for any variations from the representations as contained in the Application/Questionnaire and the City Council, in its sole discretion, will evaluate the Company's situation prior to taking any action authorized by this Agreement.

This Agreement shall become effective upon the issuance of a Certificate for the Public Act 328 of 1998 Personal Property Tax Exemption Certificate by the Michigan State Tax

Commission and shall be null and void and of no force or effect whatsoever, if the Michigan Tax Commission fails to issue such a Certificate.

1. EMPLOYMENT

The Company will retain approximately Two Thousand Seven Hundred and Thirty Eight (2,738), jobs and add approximately Two Hundred and Eight Nine (289), jobs at the project within (3) years after the approval date. For purposes hereof, the term "new jobs" means jobs that do not presently exist in the City of Pontiac, and may include jobs/personnel that are or will be relocated from another municipality to the City of Pontiac.

2. INITIAL STATUS REPORT

The Company will submit a Tax Exemption Employment Status Report to the City's Contract Compliance Officer, within one (1) year after the Approval Date, on City Contract Compliance Form A/00-1, or similar form requested by the City, which shall indicate the actual new personal property costs at the Facility, the estimated remaining new personal property costs if the Project is not then complete, the actual number of new jobs created and, if applicable, the number of jobs retained within the preceding year, the number of jobs projected to be created or retained within the following year and an explanation of any variations from what was set forth in the Application/Questionnaire.

3. ANNUAL STATUS REPORT

Not later than six (6) months following the date of the Notification of Completion of the Facility, as required by State Tax Commission Rule R209.55, or one (1) year after the filing of the Initial Status Report pursuant to the preceding paragraph 2, and every twelve (12) months thereafter, the Company shall submit an updated Tax Exemption Employment Status Report for the preceding year to the City's Contract Compliance Officer. The Annual Status Report shall be prepared on City Contract Compliance Form A/00-1, or similar form requested by the City, and shall contain the same information required in the initial Tax Exemption Employment Status Report, to the extent applicable.

The Annual Status Report shall contain the following information:

- a. The number of new jobs projected (or in the case of the first Annual Status Report following the occupancy of the Facility, the number of jobs promised) in the Exemption of New Personal Property Application.
- b. The number of jobs retained during the reporting period in comparison to the actual number of new jobs created during that period. (The Project is expected to add approximately Two Hundred and Eighty Nine (289), jobs and retain approximately Two Thousand Seven Hundred and Thirty Eight (2,738), jobs).
- c. If the Exemption was granted on the basis of retention of existing jobs within the City of

Pontiac, the number of employees at the time of the application and the then current number of employees.

- d. If the projection for creation or retention of jobs was not reached, an explanation of the shortfall.
- e. If applicable for the reporting period, the estimated new equipment costs contained in the application and the actual new equipment costs.
- f. If actual new equipment costs differ substantially from projected costs, an explanation of the variation.

4. REVIEW AND AUDIT; PAYMENT OF COSTS

The Company acknowledges and understands that the City may review and audit the information provided by the Company, but excluding any information that is confidential or which the Company is prohibited by law from disclosing, to determine compliance with this Agreement.

In the event that the Company fails to provide employment information satisfying the requirements of the City of Pontiac, the Company will provide the City and the Michigan Unemployment Agency (MUA) written authorization for the City's use of appropriate MUA documents, such as the UC 1020 Employer's Quarterly Tax Report to verify the number of employees at the Facility as reported in the Annual Report. The Company shall reimburse the City in full for all reasonable costs and expenses incurred in obtaining, reviewing and auditing the information needed to determine compliance with this Agreement.

6. UNFORESEEN EVENTS

By execution of this Agreement, it is acknowledged and understood that the Company's investment in the Project and the City's investment in granting the Exemption is to encourage economic growth within the City. The City acknowledges that in some instances, economic conditions may prevent the Company from complying fully with this Agreement and the terms of the Application. The City will give the Company an opportunity to explain the reasons for any variations from the representations contained in the Application and will evaluate the Company's situation prior to taking any action whether at law or in equity.

7. JURISDICTION

This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Michigan.

- 8. The Company and the City certify that no payment of any kind has been made or promised by the Company in exchange for favorable consideration by the City of the Company's Exemption Application.

9. The section headings inserted in this Agreement are for convenience only and shall not be construed to limit, enlarge, or affect the scope or intent of this Agreement or the meaning of any provision hereof. Time is of the essence as to all matters related to this Agreement.

WITNESS:

Frederick D. Smith
12/21/05

Date: 7-21-05

WITNESS:

Date: _____

LAW DEPARTMENT
Approved As to Form

By: Mark J. Hotz
Its: City Attorney
Date: _____

WITNESS:

Date: _____

GENERAL MOTORS CORPORATION -

By: George Schneider
7/21/05

Its: Regional Tax Manager

CITY OF PONTIAC

By: _____
Willie W. Payne

Its: Mayor

FINANCE DEPARTMENT

By: _____
J. Edward Hannan
Its: Finance Director
Date: _____

CITY CLERK

By: _____
Vivian Spann
Its: Clerk
Date: _____